CM Joe Biernat, Chair	CM Barbara Johnson, Chair
Public Safety & Regulatory Services	Ways & Means
307 City Hall	307 City Hall
350 S. Fifth St.	350 S. Fifth St.
Minneapolis, MN 55415	Minneapolis, MN 55415

Dear Chairs Biernat and Johnson and Committee Members:

The attached report brings to you data for consideration for possible adjustment of license fees for 2003. It is necessary to have a decision made this early for 2003 in order to affect liquor licenses due January 1, 2003 because of the lead times required by the State of Minnesota and our own computer system with respect to renew notice generation. The State requires that everything be in to us 60 days before the expiration of the license and we generate the renewal 45 days before that in order to give the licensees 30 days to submit the application and fee to us.

As you will recall, at the hearing for fee adjustments earlier in the year, one of the concerns was that when license fee adjustments were made on a periodic basis, those adjustments tended to be harder for businesses to accommodate because they tended to be larger amounts and not something the business could plan ahead of time for. As a result, an ordinance change was made to require an annual consideration of economic data and a determination of what adjustment, if any, should be made in fees for the upcoming year.

Though this is the first year that we will be considering annual fee adjustments, other jurisdictions, such as Bloomington and Brooklyn Park have used this process for several years. In each of these cases, these cities use the previous year's inflation rate to set their next year's fees. This in essence leaves the City a year behind in recovering costs, however, it allows the council to consider concrete data. It is extremely difficult to get reliable projections for an upcoming year and even data for the first half of 2002 is not yet available. Attempting to use projections for either 2002 or 2003 requires assumptions and speculation which then are subject to debate. Therefore, we are recommending that Minneapolis use the inflation data for the previous year for which complete numbers are available as these other cities do. In this case, that year is 2001.

Both Bloomington and Brooklyn Park use the Consumer Price Index in setting their adjustments. Though there are arguments for using this index, this year we are recommending that the Implicit Price Index change for 2001 be used. This is generally a more conservative number and we did do an adjustment earlier this year.

The Implicit Price Deflator for state and local government showed a 2.2% increase in 2001. The Consumer Price Index showed a 2.8% increase nationally and a 3.8% increase in the Twin Cities. Some individual items such as medical care and fuel and utilities showed higher rates, 6.5% and 5.8% respectively. These are costs that do impact the City budget significantly.

From these numbers it would appear that an increase ranging from 2.2% to 3.8% could be justified. We are recommending a 2% increase and this is the percentage incorporated into the 2003 budget documents.

In excess of 5,000 notices were sent to our licensed businesses allowing for a 30-day notice of the hearing on July 31, 2002.